

FEDERAL RESERVE SYSTEM

Central State Bank
Muscatine, Iowa

Order Approving the Acquisition of a Thrift Branch

Central State Bank (“Central”), a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (the “Bank Merger Act”) to purchase the assets and assume the liabilities of the Muscatine branch (“Branch”) of Commercial Federal Bank, A Federal Savings Bank, Omaha, Nebraska (“Commercial Federal”). Central has also requested the Board’s approval to operate Branch as a branch of Central pursuant to section 9 of the Federal Reserve Act (12 U.S.C. § 321).¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board’s Rules of Procedure (12 C.F.R. 262.3(b)). As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General and relevant banking agencies. The time for filing comments has expired, and the Board has considered the applications and all the facts of record in light of the factors set forth in the Bank Merger Act and Federal Reserve Act.

¹ Branch is at 2400 Second Avenue, Muscatine, Iowa.

Central is the 24th largest depository institution in Iowa, controlling \$292.6 million in deposits, representing less than 1 percent of total deposits in depository institutions in the state.² Branch controls \$6.2 million in deposits and, on consummation of this proposal, Central would control deposits of \$298.8 million.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.³ The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the community to be served.⁴

Central and Branch compete in the Muscatine banking market.⁵ The Board has carefully reviewed the competitive effects of the proposal in this market in light of all the facts of record, including the characteristics of the market and the projected increase in the concentration of total deposits in

² State deposit data are as of June 30, 2000.

³ 12 U.S.C. § 1828(c)(5)(A).

⁴ 12 U.S.C. § 1828(c)(5)(B).

⁵ The Muscatine banking market is defined as Muscatine County, Iowa.

insured depository institutions in this market (“market deposits”)⁶ as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”).⁷

Central is the largest depository institution in the market, controlling \$292.6 million in deposits, representing 35 percent of market deposits. Commercial Federal is the smallest depository institution in the market, controlling \$6.2 million, representing less than 1 percent of market deposits. On consummation of the proposal, Central would remain the largest depository institution in the market, controlling deposits of \$298.8 million, representing 35.8 percent of market deposits. The HHI would increase by 46 points to 2635.

⁶ All market data are as of June 30, 2000. Market share data before consummation are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See WM Bancorp, 76 Federal Reserve Bulletin 743 (1984). Since Commercial Federal is a thrift, Branch’s deposits are weighted at 50 percent pre-merger and 100 percent post-merger. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks, Inc., 76 Federal Reserve Bulletin 669, 670 n.9 (1990).

⁷ Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market in which the post-merger HHI is above 1800 is considered to be highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger or acquisition increases the HHI by at least 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers or acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

Several factors indicate that the likely effect of consummation of this proposal on competition in the market would not be significantly adverse. Although there has been no de novo entry in recent years, the Muscatine banking market has economic characteristics that suggest that it is attractive for entry. The averages for Muscatine County exceed the averages for all Iowa non-Metropolitan Statistical Area counties in population per banking office, deposits per banking office, increase in deposits, increase in population, per capita income, and increase in per capita income. Muscatine County also ranks seventh among Iowa's 89 counties in the amount of total bank deposits. Of the six remaining firms in the Muscatine banking market, three firms, in addition to Central, would each control 10 percent or more of market deposits.

As required by the Bank Merger Act, the Board consulted with the Department of Justice and relevant banking agencies. The Department of Justice has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant market. No other agency has indicated that there are any competitive issues raised by this proposal.

After carefully considering all the facts of record, including the factors set forth above and the relatively small change in concentration as measured by the HHI, the Board concludes that consummation of this proposal would not result in a significantly adverse effect on competition or on the concentration of banking resources in the Muscatine banking market, or any other relevant banking market.

Financial, Managerial, and Other Considerations

The Bank Merger Act also requires the Board to consider the financial and managerial resources and future prospects of the institutions

involved in the proposal and the convenience and needs of the communities to be served. The Board has reviewed carefully these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of the organizations. Based on these and all the facts of record, the Board concludes that the financial, managerial, and other supervisory factors are consistent with approval.

In considering the convenience and needs factor, the Board has reviewed Central's record under the Community Reinvestment Act ("CRA").⁸ The Board notes that Central received a "satisfactory" rating at its last CRA performance examination by the Federal Reserve Bank of Chicago, as of October 16, 1998. Based on all the facts of record, the Board concludes that the convenience and needs considerations are consistent with approval of the proposal.

Central has also applied under section 9 of the Federal Reserve Act to establish a branch at the location of Branch. The Board has considered the factors it is required to consider when reviewing an application for establishing branches pursuant to section 9 of the Federal Reserve Act and, for the reasons discussed in this order, finds those factors to be consistent with approval.

Based on the foregoing and all the facts of record, the Board has determined that these applications should be, and hereby are, approved. The Board's approval of this proposal is conditioned on compliance by Central with the commitments made in connection with these applications. For purposes of this action, the commitments and conditions relied on in

⁸ 12 U.S.C. § 2901 et seq.

reaching this decision are conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

The transaction shall not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors,⁹ effective June 25, 2001.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

⁹ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.